

INFORMAL MANUFACTURING IN THE SOUTH AFRICAN ECONOMY

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SUMMARY

This paper derives from research done during 1992. Small-scale and informal manufacturers in the clothing, wood-work and metal sectors were interviewed, as were other actors in these sectors - suppliers of materials, larger producers, retailers. A large part of the report focuses on small clothing manufacturers, both independent producers and subcontractors. One of the research findings of the study is that small producers tend not to be successful producers for low-income markets (i.e. the poor) for reasons of scale, efficiency, as well as market domination by large producers and retailers. However, small producers have successfully penetrated certain markets serving lower-middle income Black consumers, especially in the designer clothing and carpentry sectors.

We have therefore argued that these segments of informal manufacturers warrant economic policy support, and have suggested some aspects of support that might be granted. However, we have also argued that the highly inequitable structure of the South African economy - which has effectively excluded Blacks and small businesses from playing anything other than a marginal role in the economy - necessitates affirmative action policies for small and Black producers. Whilst this is largely a political decision, implementation of which will be the responsibility of state departments, it is nevertheless vital for economic policy-makers to participate in the process of identifying targets for economic promotion.

INTRODUCTION

The purpose of this paper is threefold:

Firstly, to examine the performance of various segments of informal manufacturing; secondly, to summarise current findings on how informal manufacturing is inserted into the South African economy;

thirdly, to identify whether and which segments of the informal sector merit the attention of industrial policy-makers.

The paper draws largely on research conducted during the period October - December 1992, mostly in Durban, but briefly in Johannesburg.¹ Research was focused on informal manufacturers - clothing manufacturers, carpenters and metal-workers. It was guided by several objectives: i) to arrive at some estimate of the size of the informal manufacturing sector; ii) to establish the segments of manufacturing in which they are located; iii) to gain an insight into the conditions under which these enterprises operate; iv) to identify the constraints and opportunities for growth within these enterprises; v) to ascertain appropriate support.

The approach used in the research was to visit various sites in which informal and micro-enterprises are located, selecting interviewees from those present at these sites. Thus a significant proportion of the research was conducted in industrial parks and hives run by the SBDC in Durban and Johannesburg and the KwaZulu Finance Corporation (KFC) in Durban. This approach has significant implications for our research findings, since it is the more established businesses with relatively more resources which tend to set up in the industrial parks and hives - the vast majority of these enterprises had 'graduated' from being home-based enterprises to being located in an industrial complex. However, in order for our findings to be more representative, we also interviewed home-based entrepreneurs, mostly garment manufacturers.²

One of the issues we continually encountered was that of sub-contracting in the clothing industry. In an attempt to trace the extent to which this was happening in the industry, we conducted a mini telephonic survey (10 interviews) of formal (small and medium-sized) clothing manufacturers.

It is important to specify at the outset that the approach adopted in the research does not privilege the collection of quantitative data.

Given the enormous size of the informal economy, we found that a limited study such as this would best be served by as broad an overview as possible of the dynamics at play within the informal economy, rather than by attempting to produce a statistically sound survey of a limited number of enterprises. This attempt to establish the broader picture contradicted efforts to gain meaningful quantitative information. It is thus difficult to give a precise figure of the number of interviews conducted - well over 50 enterprises were visited; we obtained some data from fabric and sewing machine suppliers; we interviewed 10 formal clothing manufacturers. Since different interviews yielded varying amounts of detail - depending on the time available for the interview, the level of willingness of the respondent, the specific objective of the interview - some interviews provided highly detailed information, yet it was impossible to keep to this degree of rigour throughout the research.

CLOTHING MANUFACTURING

In many developing countries one finds the tradition of seamstresses working at home or in small rented rooms, sewing dresses for women and children. Our research unearthed three such types of businesses: women who manufacture only pinafores (loose cotton dress); seamstresses making custom-made dresses on order; and women who run micro-factories do CMT (cut, make, and trim) work for manufacturers and retailers.

Pinafore production

Pinafore production appears to be one of the only segments of the clothing industry in which small scale and largely informal enterprises dominate the market - most pinafores appear to be informally manufactured,³ the vast majority by African women running their own enterprises. Attempts to estimate the size of this market are confounded by the usual problems encountered when

trying to estimate the size of the informal sector - chiefly the invisibility of the producers, most of whom seem to work from home. Our estimates should thus be read as very inconclusive, based as they are on only those manufacturers that we were able to observe. In the Durban central area we observed about 150 women who were manufacturing pinafores, and over 600 women who were selling pinafores. It is unclear what percentage of the 600 traders had manufactured for themselves, or were employed by a manufacturer.⁴ If we assume that half of the 600 traders were self-employed (i.e. own manufacturers), then it implies that we encountered 500 manufacturers operating in the Durban central area. If we include other manufacturers who trade in areas other than the CBD of Durban, then the numbers involved in pinafore production in Durban may increase to over 1000.

Each of the manufacturers interviewed reported similar production patterns.⁵ Production was only of pinafores. Most manufacturers owned their own second-hand sewing machine (either domestic or industrial). Production took place either at home (the majority of the cases) or in office blocks in central Durban. Average production was 20-30 pinafores per day. Cost of materials was about R12 per pinafore (selling price uniformly R15). Gross profit was thus approx. R3 per item. Sales were between 10-30 per day. It is quite common for the manufacturer to employ a young woman to sell the pinafores in the street, and wages to these workers were on average about R60 per week. The income finally accruing to the manufacturer was in the region of R600 per month (the excess capital presumably tied up in stocks of pinafores).

Whilst this represents only a very small contribution to the clothing industry,⁶ this is probably the less significant characteristic of pinafore production. We would consider two issues as more interesting: the role played by this sector in providing the poor with ultra-cheap goods, and the employment effects of pinafore production.

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Pinafores are worn mainly by African women and girls, the strength, longevity and low price of the garments making them comfortable and affordable workwear for low income people. Manufacturers of pinafores direct their garments towards the urban and rural African population using two main sales strategies: selling pinafores on the pavements of the city to both urban dwellers and to hawkers, and taking a stock of garments to another town (usually rural or peri-rural) to sell either directly to customers or to other hawkers. Both these activities may be carried out directly by the manufacturer or by an employee.

The employment effects of the sector are quite significant, since each enterprise producing pinafores creates on average 2 jobs - one for the manufacturer, and one for the person who sells the garments. An additional job may be created if the manufacturer decides to hawk the pinafores in other areas, as is quite common. The hiring of one or more employees to assist in retailing appears to be a function of the growth and stability of the enterprise - many of the people interviewed had started by doing both production and retailing activities themselves, and with time, had accumulated sufficient capital to hire an employee.

The organisation of production in many of the enterprises revealed an interesting phenomenon. Although most of the manufacturers were independent and self-employed,⁷ they chose, for reasons of cost effectiveness, to share the rooms in which they worked.⁸ Thus rent was shared equally amongst the inhabitants, and they required only one cutting table (or floor space, if they could not afford a table).

Most of the rooms were sublet to the manufacturers at around R500 per room, and each person rarely paid more than R100 per month for their part of the room. Given that this included electricity charges, it represented a moderate rental. Most of the respondents reported substantial improvements to their businesses on occupation of these rooms - many did not have electricity at home, where they

had previously worked (forcing them to use hand-driven machines). In addition to the availability of electricity, they were also much nearer to their markets since most of their sales took place on the pavements in the city centre. Clearly these enterprises enjoyed economies of agglomeration - which raises questions about the potential for further co-operation amongst informal producers, especially around production related issues.

Clearly pinafore production offers an easy point of entry into the garment industry. All that the entrepreneur requires is some basic garment-making skill, a minimal amount of space either at home or in an office, a domestic hand-driven or electric sewing machine (which can be bought second hand for less than R350), and materials for 10 pinafores (20 metres at R4,50 per metre - R90 fabric), hence start up capital of about R500 is all that is essential. Yet this is a highly saturated market,⁹ forcing down prices and incomes (both for the self-employed and employees). The fierce nature of the competition also impedes attempts to raise prices - this was tried in one of the larger trading areas some months ago, when a price floor of R20 per garment was set. It failed very quickly as individual traders reverted to selling at much lower prices.

It appears that two options present themselves for pinafore manufacturers to grow and diversify. The first is to opt out of the highly crowded city centre market, and to sell at higher prices either to hawkers or directly to customers in the smaller towns. Many of the respondents reported using this strategy, claiming that it allowed them to increase their profits substantially, although they cited severe time constraints which inhibited them from doing this regularly.

The second option available to them is to move away from pinafore production, and into more lucrative garments, such as ladies' and children's dresses, jerseys etc. Several barriers inhibit them from entering these markets: the most significant obstacle appeared to be respondents' reluctance to enter uncertain markets. The large and

stable market for pinafores encourages the perception of pinafore production as a safe option.

A second obstacle cited was insufficient capital to build up a stock of ladies' or children's garments - the cost of fabric for these garments is considerably more than that for pinafores, which makes this an inaccessible option for most manufacturers.¹⁰

However, there are pinafore manufacturers who have entered new markets (we interviewed only 4), using accumulated capital from the pinafore business to finance new production lines. All of these respondents reported significantly higher profits than those producing only pinafores - in the region of R100-R200 higher.

There are three areas towards which assistance for pinafore manufacturers could be directed:

- 1 *Decreasing the fierce competition between producers.* More effective organisation of individuals involved in pinafore production may help to improve co-operation, not only around issues relating to price, but also on other issues affecting them such as those mentioned below. Current efforts to organise informal sector participants will aid this process.
- 2 *Market space.* Most respondents cited the shortage of market space as a serious factor inhibiting their growth. This forces them to conduct sales on crowded pavements, thus inconveniencing both customers and passers-by. Many proposed that a large market site made available for informal trade would help to resolve this problem. City planners must consider this.
- 3 *Diversification.* In order to encourage some of the pinafore manufacturers to enter other less crowded and more lucrative markets, efforts should be made to make available more information on markets.

Independent dress-making and designing

Throughout Durban there is a vast number of small manufacturers of custom-made women's garments, operating either from home or from small rented offices. Although they would be found in all of the race groups in this country, we have focused here on only African businesses, and particularly on those operating from rented offices, both in central Durban and in the KwaZulu Finance Corporation Industrial Park in Durban.

Except for one, all the manufacturers observed were female. We discussed two types of individuals: those who had willingly left their previous jobs in order to pursue their interest in business, and those who had started these businesses after they were retrenched from former jobs. Most of the individuals had worked in clothing factories before, yet almost all stated no willingness to enter paid employment again. Almost all of the seamstresses interviewed had begun their enterprises at home, and had moved to premises out of the home once the business was relatively more stable. Most reported that the move out of the home had had a positive effect on their business, since their new location gave them easier access to customers.

All the seamstresses interviewed were catering for a specific niche market - designer garments for African middle class women and men, and garments for special occasions. They were not competing in the same markets as the manufacturers of mass produced garments, and they were not striving to produce cheaper garments than these. Rather, all garments were intricately designed from imported fabric, and were very expensive. There is clearly a large market for these garments, evidenced by the large numbers of enterprises producing such clothes.

Production in all the enterprises followed a similar pattern, with the customer placing a 40-50 percent deposit on order, and paying the rest either on delivery or in 3 instalments. This system allowed the

manufacturer to purchase the fabric (usually comprising 50 percent of the total cost) needed for the garment. However, in all the cases, this left the manufacturer with a problem of cash flow, since s/he had to wait for completion of the garment before receiving more cash. This slow trickle of cash also inhibited the entrepreneur from easily investing in inputs (whether machinery, raw materials etc). In one of the cases, the enterprise was relatively successful, with a profit of around R2 000 per month, yet when the entrepreneur needed to purchase another sewing machine, she did not have sufficient cash, and was forced to borrow. Interestingly, she did not borrow from a financial institution, but from a friend who had the resources. This raises the issue of availability of capital. Rather than large sums of capital, small short-term loans appear to be most needed by garment manufacturers.

Although garments are largely made only on order, some of the more successful manufacturers had a parallel sales strategy. They made between 20-50 additional dresses per month, and sold these in Johannesburg townships, where they were able to substantially increase their mark-up.¹¹

Basic levels of skills appear to be quite high in the sector - most of them absorbed from working in large factories. However, cutting and design skills are not as common, and entrepreneurs wanting to acquire these skills register for costly courses in designing/cutting.

Many of the seamstresses employed between 1-3 machinists, although the number employed was clearly a function of the stability of the enterprise (with newer enterprises comprising only the entrepreneur).¹² Most of the machinists employed by the seamstresses had joined the enterprise unskilled, and had been trained by the seamstress to sew. Wages for machinists were between R300 - R500 per month.

Very few of the seamstresses were able to calculate their profit, and strict accounting techniques would probably reveal no 'profit' at all

for most of them. However, we were able to roughly gather what income the entrepreneur would take home, and this ranged from R800 - R2 000 per month, depending on the number of orders obtained, the season of the year etc.

The major constraints on their growth are cash flow problems and the instability of production. Although many of these enterprises reported considerably high turnovers (over R5 000 per month), they often experienced cash flow problems, as customers frequently required several months' credit. This created the anomaly whereby the enterprise's profit was relatively high, yet the entrepreneur would take home less than R50 at the end of a month. Given that their main competitors (the large retailers selling expensive dresses) operated on the basis of interest free credit, these enterprises were forced to give their customer the same facility, thereby creating serious operating problems for themselves.

These manufacturers tend to be highly dependent on orders, making for complete instability of production. Some stability is achieved by manufacturing for other markets - JHB or rural markets, provided capital is available to purchase fabric. However, cash flow problems inhibit manufacturers from buying sufficient quantities of fabric.

The policy options to overcome their problems seem to lie in providing short term credit and upgrading skills. Most institutions giving credit to small or informal enterprises take at least 3 months to process loan applications. This bureaucratic delay serves as a serious obstacle for micro-enterprises who have short-term cash flow problems, and who require immediate access to capital. A loan guarantee facility - possibly jointly funded by a state institution and/or an NGO - granting micro-enterprises access to small amounts of capital with the minimum of delay, would probably be most useful here.¹³

Market rates for upgrading of skills in the clothing industry are prohibitively high - a 6-month course in designing, for example,

may cost as much as R5 000. As part of a state-led drive to encourage human resource development, skills upgrading courses in clothing manufacturing should be subsidised.

Subcontractors in clothing

We observed that a relatively large number of medium-sized garment manufacturers are subcontracting out various production functions to small and medium-sized CMT (cut, make and trim) establishments. Whilst this may not be a new phenomenon, it may be the case that the crisis in the clothing industry is causing several manufacturers and retailers to subcontract to micro-enterprises (informal or home-based enterprises).¹⁴

We visited 5 micro-enterprises each doing CMT work for manufacturers, and each with the capacity to produce between 300 and 400 units per week. All reported that manufacturers chose to use them rather than larger CMT establishments because they accepted lower prices.

Telephone interviews with 10 clothing manufacturers

Eight regularly gave between 10 and 70 percent of their output to CMT establishments, whilst another only did CMT work. Of the eight, four gave as the main reason for giving out CMT work the need to complete large orders, whilst a further two cited the need to reduce labour costs. One manufacturer dealt with CMT enterprises which employed fewer than 10 workers, whilst four manufacturers dealt with establishments in the size group 10-70 workers (3 did not know the size of the CMT partners). All except 1 of those who gave out CMT work required the CMT enterprises to perform all functions - cutting, sewing, trimming, delivering. All that they supplied was a design and fabric.

It is very difficult to trace whether many manufacturers are subcontracting out to home-based industries, since they are reluctant

to admit this to researchers. Thus in the telephonic survey conducted, none admitted doing this. However, the existence of a considerable number of micro-enterprises surviving only on CMT work, as well as anecdotal reports by others in this industry, suggests that this is an increasing trend. We were able to locate one large manufacturer/retailer¹⁵ who uses home-based garment manufacturers, each of which was given orders to make up (not cut) 300-400 garments per week. According to the MD of Fashion World, the advantage of using these micro-enterprises was that their lower overheads allowed them to charge lower prices per garment. In addition, many of them were small enough to be exempted from Industrial Council regulations (or they simply did not register), thus their wage bills were considerably lower than larger CMT operations.

Whilst only one-third of the CMTs with which Fashion World dealt were micro-enterprises, the MD stated his interest in increasing the number of such relationships. Other manufacturers cited three factors constraining them from embarking on subcontracting out to micro-enterprises. The first is the inability of these enterprises to perform cutting functions - whilst they may be quite capable of efficiently making up a garment, the small units they occupied did not allow them space to cut. Since all but one of the respondents with whom we conducted the telephonic interview required their CMT establishments to cut, this is clearly a serious impediment facing micro-enterprises.

The second constraint was related to the scale of production - most gave out contracts to enterprises with more than 20 workers, because the quantities ordered required the enterprise to have a higher production capacity.

A third concern centred on the quality of the goods produced by home-based or micro-enterprises. Because of the decentralised nature of production, it is quite difficult for the manufacturer to

control the quality of the work of the CMTs, and this results in high reject rates.¹⁶

We interviewed several micro-enterprises whose entire business is constructed around manufacturing for clothing retailers. There were clear advantages in their supplying retailers rather than manufacturers - the scale required was often much lower than that needed by manufacturers; retailers paid higher prices than the manufacturers (since the middle-man was eliminated). Provided the entrepreneur had some design capabilities, and space to cut fabric, she could supply retailers with completed garments.

Despite the advantages accruing to retailers from sourcing from such micro-enterprises, it appears as if these relationships are established largely between Indian retailers and Indian micro-enterprises. One of the factors which confines this activity largely to the Indian community is the trite but thoroughly relevant business dictum - networks and contacts. The small retailers in Durban - which are the only ones who would consider sourcing from micro-enterprises - are largely Indian, and the owners of these businesses would have knowledge of, and be familiar with, Indian micro-enterprises rather than that of any other racial group.¹⁷

Whilst in Durban this type of subcontracting relationship appears to be largely between Indian businesses, the potential still exists for micro-enterprises to be further integrated into the clothing industry, especially in those segments of the industry in which flexibility in style, production and delivery is essential. The 'cottage industry', curtain and duvet making, amongst others, may present the greatest opportunities for subcontracting between large manufacturers and retailers and micro-enterprises.

Outlets such as Biggie Best and Mary-Lou (the former a national chain, the latter Durban based and specialising in 'country decor' source many of their products from informal and small-scale enterprises. One of the Mary-Lou outlets we interviewed obtains

over 80 percent of its goods from white women who work at home making curtains, lamp-shades etc.; whilst one of the Biggie Best outlets we spoke to contracts out 50 percent of their orders to 7 micro-enterprises (both Black and White). Although we were not able to confirm the existence of this practice in other branches and regions of these stores, all indications suggest that this is a common practice amongst those in the 'cottage industry'.

The nature of the market served by these businesses lends itself to flexible manufacturing practices - customised goods, small batches, - which standardised production would not be able to satisfy. Thus another Biggie Best outlet we interviewed, although stating his reluctance to deal with home-based production, noted that he often had no option, since there were many items that he could not source from his main supplier Biggie Best Factory in Cape Town, because it was too far away (making communication difficult), too inflexible and rigid in its range of goods, and unreliable in its delivery of goods.

It appears that there are a significant number of women whose businesses are geared towards supplying such stores. We interviewed only one of these - an African woman, who had been employed in one of the Biggie Best workshops as a machinist, who had been forced by BB to go independent, and who now produced both for her own customers and BB. Biggie Best clearly draws substantial benefit from this arrangement, since they are not obliged to give her contracts during slack periods, leaving her to find her own source of income. However, continuing this relationship with BB brought some stability to this micro-enterprise, since there was some guarantee that she would be regularly awarded contracts.

Policy could be directed at helping to facilitate subcontracting between micro-enterprises and large manufacturers,¹⁸ making available information on the type of products micro-enterprises can produce, the quality of the product, the cost etc.

HAWKING AND TRADING

Whilst manufacturing is the major focus of this paper, it would be negligent to ignore the much more prevalent activity taking place in the clothing industry - informal hawking and trading of clothing. The discussion below briefly summarises the main observations drawn from our study of informal hawking in the urban area.

Overwhelmingly women hawkers travel in buses and taxis from various parts of the country to Durban to purchase goods - clothing, footwear, household items etc. - mostly for resale. They purchase these goods largely from urban based informal traders, although they also purchase from hawker wholesalers and factory shops in Durban. One study observed about 240 buses per month arriving in Durban for this purpose, and, with each customer spending between R500 and R2 500 per trip, calculated the total value of this trade to be more than R14 million per month. Whilst a range of items is traded, a large proportion of this trade is in clothing.

We found that most of the clothing sold in these markets emanated from small to medium-sized clothing factories in Durban. Hawkers would purchase (in small quantities - less than 20 units) either directly from manufacturers, or from manufacturers' factory shops. One manufacturer we interviewed estimated that more than half of the small to medium-sized manufacturers (less than 50 workers) sold 80 percent of their garments to hawkers (through their factory shops, hawkers' retailers). This indicates the extent to which the clothing industry in Durban is dependent for its survival upon informal hawking of their goods.

However, whilst most of the clothing being traded originates from formal factories, informally manufactured clothing is also traded in these markets. In addition to pinafores, we found a small number of home-based manufacturers of women's and children's garments and underwear. One of these manufactured and sold 300 short/shirts sets per week, making a profit of over R3 000 per month.¹⁹

Through these trading networks, clothing manufactured in Durban reaches some of the remotest parts of the country, as well as neighbouring countries. The role of these hawkers in distributing cheap goods to the poor and rural populations is thus critical. Since very few retailers (beside PEP and a few others) find it efficient to penetrate into small or rural markets, the informal traders serve as effective distributors of goods only available in towns and urban areas.

Conclusions: informal sector and clothing

Informal trading activities occupy a much more prominent position than does informal manufacturing of clothing. Informal traders in Durban provide a direct link between the clothing manufacturing industry in Durban and large numbers of consumers in other parts of the country, as well as in neighbouring countries. This evidence suggests that informal trade in clothing plays a crucial role in supporting the clothing industry in this region, without which role the crisis in the clothing industry would be much more severe.

The contribution to the clothing industry made by informal clothing manufacturers is much less substantial. Yet whilst the contribution of these producers to sales and output may be marginal - as a percentage of the sales and output of the entire industry - the employment creation effects of informal clothing manufacturing is significant. From our brief survey, we estimated that pinafore production in Durban directly creates at least 2000 jobs - 1000 in manufacturing, and 1000 in sales.

The distinction Rogerson (1991) makes between 'informal economies of growth' and 'informal economies of survival' is a useful one, in that it propels one to try to identify those characteristics which constrain enterprises from growing, and those which encourage growth. Some enterprises, it is argued here, are innately more likely to become stable and profitable, depending on

the nature of competition, the motivation of the entrepreneur etc. Individuals entering highly crowded markets, motivated by extreme vulnerability and poverty, face very difficult constraints, and are much less likely to accumulate and grow.

Pinafore production is clearly such a survival oriented, undynamic segment of the clothing industry. For policy-makers concerned with improving the lot of individuals in this segment of the informal sector, the question is raised as to what is the appropriate response to this vulnerability. Most of these enterprises do not have the capacity to grow or become significantly larger, and it is perhaps not in these terms that their contribution should be evaluated. Firstly, these producers have identified a market not served by large producers, and they are therefore able to serve that market without any competition from the chain stores which traditionally dominate the low-income market. This then provides some guarantee of a secure - if poor - market. Secondly, whilst incomes earned by the manufacturers and wages paid to their employees are so low as to be justifiably considered exploitative, the pinafore producers are providing the poor with an essential product - cheap, comfortable and durable clothing for working women - which is not provided by any other producer. This is clearly a socially useful role, and echoes the role played by informal sectors throughout the developing world - that of a provider of cheap goods to the poor. It is perhaps in terms of this role that this segment of the informal sector should be evaluated. Support measures aimed at assisting them, then, should also be determined with these criteria in mind.

Unlike pinafore manufacturers, those manufacturers in more lucrative markets - either making custom-made garments for their own customers or supplying larger clothing manufacturers with garments - reveal a much more apparent growth dynamic, justifying the use of more traditional tools of business assistance. However, a broader question is raised on the issue of subcontracting, as to whether or not it is appropriate to support the general trend we observe towards sub-contracting out clothing production to home

industries or micro-enterprises. We attempt to deal with this issue below.

FURNITURE

Research on micro-enterprises in the furniture industry was done both in Durban and Johannesburg, mostly in the SBDC hives - in Chatsworth in Durban, in Pennyville in the outskirts of JHB, and the City Hive in central JHB. These were largely Coloured and Indian-owned businesses. We located, with much difficulty, 2 African-owned furniture manufacturing enterprises (one based in the KFC park and the other at home). Time constraints did not allow for the study to be as intensive as that into clothing. What follows is a brief account of our observations, and some preliminary analyses.

Small furniture manufacturers operate in 3 markets:

- 1 *Low-income:* manufacturers use scrap wood to assemble chairs and sofas, which are then upholstered with cheap fabric, and sold at around R300 for a 3-piece suite. The manufacturer that we interviewed was selling all his products to small furniture retailers. Because he obtained his raw materials (scrap wood) extremely cheaply, and did not employ any workers, his costs were minimal (except for upholstery), thus he was making a substantial profit of over R5 000 a month. The production process followed is very similar to that which we observed amongst some Kenyan wood workers, although it appears to be much more widespread in Kenya than in South Africa.
- 2 *Medium-income Market:* also observed in 2 SBDC hives in Johannesburg were several furniture manufacturers who were supplying medium-sized furniture retailers in the Johannesburg area with kitchen units and cupboards made from chipboard. One of these manufacturers supplied over 25 retailers. The size of the enterprises varied from 4 to 20 employees, as did

their output capacity - from 3 kitchen sets per week to 10 sets per week. Employees were mostly skilled artisans, who had some work experience from larger factories, but some of the employees were trained in the enterprise.

Yet another group of manufacturers serving the middle-income market are cupboard-makers who manufacture and assemble kitchen and bedroom cupboards in customers' homes. We located 6 of these in the Chatsworth SBDC hive, 2 in the KFC industrial park in Umlazi in Durban, and 1 working at home in KwaMashu in Durban.²⁰ Those in the industrial parks had between 1 and 6 employees, whilst the manufacturer working in KwaMashu worked alone. All of these organised their routine in a similar way - they manufactured only on order; they charged between R5 000 and R10 000 per set; customers paid 50 percent deposit to cover the costs of the materials and paid the balance either on completion or in instalments; production and assembly took between 3 days and 1 week, depending on the number of employees. The income entrepreneurs received varied from R1 000 - R3 000 per month, with wages for unskilled and semi-skilled workers at around R500 - R800 monthly.

- 3 *Custom-made craft furniture:* the Pennyville SBDC hive in Johannesburg houses several furniture manufacturers who are producing exclusive, custom-made wood products, both for the local and the international market. Competition in this segment of the market is clearly on the basis of quality and design, with many of the products being sold at a higher price than competitors' prices. The artisans who owned the enterprises had built up several years of experience in the furniture industry before beginning their own businesses, either because they had been retrenched, or because they preferred to be self-employed. One of the enterprises which we visited - producing furniture both for offices and homes - was working with an interior design company which secured most of the contracts, and gave the carpentry work to this enterprise.²¹

Insufficient knowledge of the dynamics of the furniture industry inhibits us from providing an authoritative analysis of the growth potential of small furniture manufacturers. The comments that are made here are based largely on information supplied to us by micro-enterprises, and should be read as preliminary and tentative.

Current prices of furniture are high enough to create the space for micro-enterprises producing low or medium quality, cheap furniture to enter the market. Yet to date, small scale production for the low-income market is occurring on a very limited scale.

Those manufacturers producing for the middle-income market have clearly penetrated this market with considerable success, both as producers for the final market, and as subcontractors. Whereas in Durban we found many manufacturers supplying their own customers with furniture, in JHB we found a much higher degree of links between the formal businesses and small enterprises (subcontracting by retailers). This issue of subcontracting appears to be critical in the furniture industry, because of the widespread use of credit for furniture purchases. This extensive use of credit facilities makes it very difficult for small manufacturers (other than those at the upper end of the market) to act as supplier to the final market, since they lack the facilities to set up credit arrangements for clients. This implies that the greatest potential for most small furniture manufacturers is as subcontractors for the retailers.

Yet the highly concentrated network of retailers appears to be a strong factor keeping the small manufacturers out. Firstly, the small retailers, who would be in a position to source from small manufacturers (since they require smaller volumes), are more flexible in their purchasing patterns, and comprise only a small proportion of the furniture retailers. However, and this is the second problem, the large retailers source only from their own large suppliers, and are unlikely to change their sourcing patterns.

Whilst the above issues constrain the manufacturers serving the lower and middle end of the market, it may prove to be less of a constraint for those in the upper end of the market, where credit may be a less critical issue. Thus enterprises in the high value-added market may have greater growth potential, possibly in the mode of the small designer furniture enterprise for which the 'Third Italy' is distinguished.

METAL INDUSTRY

Preliminary impressions indicated that there exists relatively little small scale metal manufacturing. Thus our research has mostly focused on identifying the extent of its existence. We noted both in Durban (at the KFC Park) and Johannesburg (at various SBDC Parks) the widespread existence of burglar guard and gate manufacturers. This appeared to be the most significant activity amongst African males, whereas we found that Coloured manufacturers both in Durban and Johannesburg were involved in much more sophisticated activities making metal brackets, hinges, metal containers for use in industry. This disparity is clearly related to Apartheid legislation barring Africans from becoming artisans in the metal industry and promoting White and Coloured artisans - resulting in the current skills deficiency amongst Africans.

Most of the entrepreneurs in the African-owned enterprises had some experience in the metal industry - as artisans' assistants - before either voluntarily or involuntarily leaving formal employment for self-employment. Except for one, none had any formal qualifications, and they were unable to perform very sophisticated technical functions like draughting or interpreting designs.

Compared to these, the Coloured manufacturers were highly skilled, and had accumulated several years of experience in the industry, as apprentices and then as artisans. They seemed to be closely integrated into the rest of the metal industry - often with contacts

gained during previous employment - and regularly obtained small contracts from the large manufacturers.

The employment effects of small scale metal manufacturing varies - we observed several enterprises in which the entrepreneur worked alone; however most appear to have at least one employee who has basic welding skills. On the other hand, we also noted several enterprises in Durban which performed several house-improvement functions - welding, roof repairs, some building activities - and these enterprises invariably employed more than 4 workers (general handy-men). Yet employment in these enterprises appears to be much more precarious, dependent as it is on obtaining contracts. Those enterprises run by highly skilled artisans seemed to provide much more stable and secure employment, as their links with the rest of the metal industry gave them a stability of production which the independent burglar guard makers lacked.

The burglar guards/gates segment of the metal industry is an extremely labour intensive activity, yet the very fierce competition between manufacturers leads to systematic under-cutting of prices. This cut-throat competition makes for only marginal profits, and a high degree of vulnerability for enterprises.²² As in other segments of small and informal manufacturing, wages are significantly lower than in the formal industry - around R100 per week - whilst the income of the entrepreneur tended not to be higher than R1 000 per month.

Most of the manufacturers that we interviewed were supplying to township residents, although one of the interviewees had succeeded in entering the white middle-income market, specialising in electronically controlled gates.²³

Whilst the requirements for entry into the sector are relatively low - basic welding skill, a welding machine and materials, the requirements for success in the industry are relatively high - greater skill, larger number of employed, and, importantly, contacts with

large manufacturers in the industry. Those manufacturers who remain in the burglar guard segment of metal manufacturing are unlikely to face significant growth prospects, although this may change if they diversify out of this narrow market. Like pinafore manufacturers in the clothing industry, these producers are likely to continue to occupy marginal positions in the economy, whilst providing the space for some entrepreneurs to gain skill and experience in business.

Although the enterprises subcontracting for the large metal manufacturers appear to be quite prosperous, they nevertheless represent a tiny fraction of the metal manufacturing industry.²⁴ It is difficult to speculate on the potential for further subcontracting for the large producers, without more information on the functioning of the metal industry.

Summary of research finding

The composition of informal manufacturing in each region is closely related to the presence of formal manufacturing in the region. Thus in the greater Durban region, clothing and footwear, both well established industries in the region, appear to be widely manufactured informally, whereas there appears to be a much smaller informal metal industry.

This is probably related to the transferral of skill from the formal to the informal sector, either when workers are retrenched and forced to take up self-employment (using skills acquired in their previous jobs), or when workers employed in these large factories recognise the potential to compete with these factories by producing similar products at lower prices.

The current composition of the informal sector in Durban also reflects Apartheid racial policies: craftspeople are largely Indian and Coloured rather than African, thanks to legislation prohibiting Africans training as artisans. Thus one encounters very few African

carpenters/cabinet makers/furniture makers/metal manufacturers, compared to large numbers of Indian and Coloured equivalents. Similarly, in the Durban (and probably Cape) clothing industry, it is common to find African women who are machinists, yet the more skilled occupations such as cutters, designers etc., are largely Indian or Coloured. African designers who have set up their own businesses appear to have only recently acquired these skills, mostly through private training centres.

The metal industry reflects similar trends. Since Coloured men constitute a large percentage of the skilled workforce in the industry, there appears to be a significant number of Coloured men owning very small metal manufacturing enterprises (making brakes, hinges etc.). This contrasts with the position of African workers who were traditionally assistants to artisans, and whose enterprises reflect the lower levels of skill they possess.

Thanks also to Apartheid policies, informal producers appear to serve high racially specific markets - Indian producers serve Indian consumers, whilst African producers serve only African markets. One of the factors reinforcing this is that informal manufacturers are located in racial group areas, confining them to serve residents of that racial group.

Whilst this may be beneficial for the informal manufacturer at the start of the enterprise as a clearly defined market, it may act as a barrier to further growth, since the more affluent market is largely white. This trend appears not to apply to the enterprises producing for the upper end of the market - especially in wood-work - since they appear to have accessed the affluent white market.

MANUFACTURING AND THE INFORMAL SECTOR

A recent report on the informal sector (1991, commissioned by the SBDC) represented the occupational distribution in the informal sector as follows: 38 percent in trading and hawking; 20 percent in

crafts; and 12 percent in home industries. If one assumes crafts to be manufacturing, this suggests that manufacturing represents about 32 percent of all informal sector activity. In her estimate of the size of manufacturing in the informal sector, Kirsten (1991) put the average figure at between 20 and 30 percent.

The table below summarises those areas of the economy in which informal manufacturing occurs.

The informal and formal economy

SOUTH AFRICAN INDUSTRIAL STRUCTURE

Manufacturing sector	Informal manufacturing
Metal products and machinery:	Burglar bars, doors, gates, etc. metal containers, small engineering products (brackets, ducting)
Motor vehicles, parts and transport equipment:	Motor vehicle repairs, panel-beating
Food, beverages and tobacco:	Home-based food and soft drinks production; dagga
Clothing, textiles and footwear:	Home-based production of all these products, both independent and contracted
Paper, printing, wood products:	Furniture manufacturing
Non-metallic metal products:	Glasswork, tiles, pottery

Source: partly sourced from National Clothing Federation 1992 Diary, page 146, based on 1989 sales figures.

At this point it is impossible to estimate what percentage of these industries are characterised by informal production - all that it is possible to note is that it still represents a mere fraction of the entire manufacturing base of this country. It may be pertinent at this point

to briefly examine why there are so few linkages between formal and informal manufacturers in South Africa.

- ☐ There are objective difficulties for large manufacturers and retailers in multisourcing. Whilst some economies are characterised by a high degree of subcontracting between small and large firms (such as Japan), this practice calls for a high level of organisational sophistication in the large firms, as well as a culture of co-operation between large and small firms, both of which are seriously lacking in the South African economy.
- ☐ The highly concentrated structure of production and distribution companies in this country serves to exclude small firms, since the latter are incapable of producing in the volume required by these large firms.
- ☐ One of the consequences of Apartheid has been to retard the development of small Black businesses (and manufacturers in particular). They tend to have underdeveloped technical as well as business skills, reinforcing the reluctance of large firms to deal with them.
- ☐ Several sources in business have referred to widespread corruption within industry, whereby contracts are won by payment of substantial bribes to buyers and other middle-men. If this is accurate, then this is likely to be a strong factor deterring large companies from granting subcontracts to small firms, who may be unable to pay the 'going price' in bribes.
- ☐ It is unlikely that union resistance has influenced the decisions of large companies concerning subcontracting to smaller firms, yet union resistance to subcontracting to small firms (and thereby losing formal ones) has been cited by businesses as a factor deterring them from changing their sourcing patterns.

Conclusion

In informal sector discussions in the international literature, developmentalists tend to characterise informal manufacturers as appropriate providers of cheap goods for the poor - performing low value-added, low productivity functions - whilst the rest of the economy may be geared towards international competition - higher value-added, higher productivity, greater profits. The research that we have done has revealed that informal manufacturers in South Africa play a number of roles: firstly, they produce cheap goods for the poor; secondly, they act as contractors for manufacturers and retailers supplying the low-income market, as part of industry's drive to reduce costs; and thirdly, they produce custom-made and luxury goods for the middle-income markets. However, contrary to developmentalists' expectations, these activities in South Africa represent a small fraction of the activities of the manufacturing sector as a whole. The question confronting us is whether or not we should be looking towards an increase in the contribution of informal manufacturers towards the manufacturing sector of the country - either by producing for their own markets or by subcontracting.

There are several criteria by which we may evaluate the appropriateness of this issue: The first is on economic grounds, and relates to the effectiveness of small producers competing in the same markets as large producers; the second is on social grounds and relates to the violation of workers' rights and undermining of workers' victories through home-working and the break-up of large firms (losing formal sector jobs).²⁵

Debate on the economic efficiency of small producers has raged throughout the history of industrial economics, but the argument defending the efficiency of small producers has recently been given a new lease of life with the emergence of the 'flexible specialisation' literature (Sengenberger, Piore and Sabel, Schmitz etc.). The basic thrust of the 'flex spec' thesis has been that the international move

away from mass production has given small firms considerable advantage over large firms, by virtue of their more efficient organisation, production flexibility, etc. This is a persuasive theory, particularly when one is dealing with those markets characterised by small batch production, high value and high price. Thus for example, in our research into independent seamstresses, we encountered many examples which echoed the flex spec thesis - these producers were eminently more suited to meeting the needs of their market than are large mass producers, since their customers required exclusive garments, intricate designs, and the competition in the market was on quality, clearly not on price. Thus our research confirms the validity of the flex spec theory on the potential for small firms to successfully compete in niche markets.

However, economies of scale appear still to be critical when one is dealing with mass markets, where high volume and low price are the determinants of success. Here small producers competing in the same markets as large producers appear only to be able to compete on the basis of low wages, substantially lower profits, and general immiserisation.²⁸ In South Africa, mass markets are currently served predominantly by medium to large producers, with the exception of small pockets of products - and those small producers who are serving mass markets are mainly operating in market segments which the large producers have kept out of (such as pinafores).

Those small firms which are competing in the same markets as large producers are doing so largely by accepting marginal profits, paying lower wages etc. While this is hardly a viable formula for successful growth - and certainly not one on which an industrial strategy should be based - the extent of the current economic crisis leaves few options available for proposing other strategies by which these enterprises can survive.

Thus our research findings suggest that small firms do have advantages allowing them to successfully compete in niche markets, and this is the path being taken by many small producers in clothing

and furniture. However, we find that it may be imprudent to look towards small firms as a major suppliers of cheap goods for the poor. It appears likely that these goods will continue to be sourced from large companies and import. Whilst some small firms will begin to enter these markets, they will do so largely on the basis of lower wages, marginal profits, high levels of vulnerability, and even then, mostly in markets not served by the larger producers.

The second issue that discussions raise on the appropriateness of the emergence of small and informal producers is that of the implications for workers. As expected, our research found that wages were lower, working conditions - job security, unemployment benefits, health and safety on the job - poorer, and union rights mostly non-existent in informal enterprises. The only exception that we encountered was in those enterprises producing higher value-added goods for affluent niche markets, where highly skilled labour was required. In these cases, wages were competitive with formal industry. Clearly then the average welfare of employees in informal enterprises is significantly lower than that in larger enterprises.

The substance of the argument, advanced thus far in this paper has been that small and informal firms are unlikely to prove more efficient than large ones in the delivery of goods for the poor. Where they do provide such goods, they do so largely at the expense of workers' welfare. However, we have also identified some sub-sectors in which small producers may prove to be competitive, and we have suggested that they should be encouraged to penetrate these markets. But the paper explicitly acknowledges that the economic contribution of informal producers is unlikely to be substantial. Thus if one uses pure economic criteria in determining the appropriateness of the emergence of small producers in this country, the verdict is likely to be - on average - negative.

Yet we have pointed out above that it is misleading to evaluate the usefulness of informal producers purely in economic terms. The current dominance of large - and white - firms in the economic

arena of this country compels policy-makers to promote smaller and black producers, as part of an affirmative action programme. Recognition of the weaknesses and problems inherent in such a programme is vital, yet this recognition should not impede moves towards implementing such a programme.

Thus policy-making in this area needs to be motivated by two objectives: economic - increasing the competitiveness of those informal manufacturers which are capable of competing with large producers - and socio-political - increasing the scope of small manufacturers. It is in terms of these two objectives that industrial policy towards informal producers needs to be formulated.

Policy on the informal sector may be directed at 3 objectives:

[Increasing competitiveness of dynamic enterprises] Those enterprises which were identified in the course of this research as having the capacity to efficiently serve niche markets - small furniture manufacturers producing high quality furniture, seamstresses producing designer garments and metal workers producing components for the metal industry - are efficient enough to warrant the support of economic policy-makers. Using the experience of other countries in encouraging the development of dynamic small firms, support may be rendered in a number of fields: marketing; product innovation; technical training; co-operative ventures between firms.

International experience shows that local government institutions may have been instrumental in the emergence of successful small firms in some economies - by providing services which individual small firms are unable to afford, they have helped them to overcome problems of scale. It is possible that progressive local governments could begin to play such roles in the various municipalities around the country.

[Extending welfare net for the vulnerable] Those enterprises which we identified as being vulnerable and oriented towards survival rather than growth or accumulation are likely to benefit from productivity-enhancement measures such as those listed above. Individuals in such enterprises would be more usefully supported by social and welfare support to increase their incomes, basic health, education, and welfare. Extensive government welfare spending would clearly have the greatest impact on this segment of the informal sector, yet the reality of limited government resources suggests that this is unlikely to make a substantial impact on these individuals. This leaves NGOs as the major supporter of these enterprises.

[Reducing official constraints] Although government harassment of informal businesses is minimal, other legislation may constrain the emergence and growth of small businesses, eg. forcing all businesses to comply with Industrial Council agreements, the cost of which may prove a serious barrier against entry. Significantly, COSATU has recently endorsed moves to allow small businesses to apply for exemption from these agreements. This appears to be eminently sensible, since, in addition to the regulations acting as barrier to the entry of new firms, it is likely that a large number of micro-enterprises simply fail to register with the Industrial Councils.

Notes

- 1 The research was undertaken for the Industrial Strategy Project (ISP). The author was housed at the Centre for Social and Development Studies, University of Natal during this period. The ISP is a project institutionally located at the University of Cape Town, Economics Department.
- 2 Throughout the research a questionnaire was used to elicit information on issues relating to: the background of the entrepreneur, details of the operation of the enterprise, problems experienced, etc.
- 3 It does not appear that any of the large retailers which usually cater for the low-income African market sells pinafores.

- 4 We attempted to count the number of informal pinafore manufacturers in the Durban area by going into several large Informal market areas in central Durban, and conducting a head-count of pinafore traders. One of the limitations of this approach is that we were unable to distinguish between those women who are merely traders employed by the manufacturers, and those who are both manufacturers and traders. This confounds estimates of the extent of manufacturing activity if all 600 traders were employed by manufacturers. This suggests that an additional 600 individuals are producing pinafores. Yet if all 600 are own-manufacturers, this suggests a much more limited number of manufacturers. However, from the small number of women that we briefly interviewed (about 50), we were able to gather that there was a relatively even split between those who employed others to trade for them and those who did both activities.
- 5 We are not able to cite an accurate number of manufacturers interviewed - we spoke to over 50, yet some of these "interviews" lasted only a few minutes, and yielded very specific items of information.
- 6 We calculated that the total turnover of 500 manufacturers stood at around R3 million per month, ie, R36 million per annum. Of this, gross profit stands at around R7 million per annum .
- 7 There appears to be few cases in which machinists are hired by an entrepreneur to sew pinafores, probably for the same reason that larger manufacturers are reluctant to manufacture pinafores - the low profit margin makes it an unattractive venture.
- 8 In one building we visited, there were at least 3 rooms housing pinafore manufacturers on each of the 12 floors, and each of these rooms contained at least 5 manufacturers (and as many as 10).
- 9 One commonly finds large numbers of pinafore traders operating on the same sites, selling identical garments at uniform prices.
- 10 Perhaps surprisingly, it does not appear as if inadequate skills is a barrier - most respondents reported the ability to sew a variety of garments (possibly because many appeared to have received their training in large clothing factories).
- 11 Respondents reported that inhabitants in the Johannesburg townships preferred to purchase from urban manufacturers, claiming that the choice of fabric was superior, as was the workmanship. Many of the individuals to whom we spoke thus regarded entry into the Johannesburg market as a worthy business goal.

- 12 It was clearly also a function of the type of market they served, since the marginal profit ratios of pinafore production clearly prohibited significant expansion of employment. Unlike that market, the custom-made clothing market allowed much higher profits, and served to create many more manufacturing jobs.
- 13 Such a credit guarantee fund might also be useful for larger loans. The basic idea behind such a fund is that it allows banks to share the risks of lending with another institution.
- 14 This is in line with the international trend towards home-working similar to the old putting-out system, whereby factories decentralise production in order to off-load costs (electricity, rent, maintenance of machines) onto the worker.
- 15 Fashion World is a chain of 42 stores which sends out all of its production to small and medium sized CMT establishments, but does all its cutting itself. Of the approximately 20 CMT establishments Fashion World deals with, about 6-7 are micro-enterprises (less than 5 workers). We visited 5 of these enterprises.
- 16 In fact, one of the telephonic interviewees reported that the only goods they gave out to smaller CMT establishments were low quality, cheap garments, which they chose not to manufacture in their own factory.
- 17 For similar reasons, it is likely that in the Western Cape, these relationships are largely between Coloured manufacturers and micro-enterprises.
- 18 The National Economic Initiative (NEI , a small business-funded NGO based in JHB and Durban) has been set up in order to do precisely this - networking between small and large businesses. One of the projects NEI is currently involved in is setting up a database of all the services and products small and informal businesses can offer as subcontractors.
- 19 Although time constraints did not allow us to study them, the popular flea markets that have sprung up throughout the cities represent an interesting case study of small scale manufacturing - the market niches which many of the products occupy lends itself to small scale manufacture (as opposed to mass production).
- 20 Many of the individuals whom we interviewed informed us that there were many others doing similar work from home. However, almost all appear to be Indian men who had trained as carpenters, and had gathered several years of experience before owning their own businesses. None of those that we

interviewed knew of African carpenters - although we did locate 2 African carpenters, but they did not know of others.

- 21 In addition, this enterprise had secured a small export order from the UK of oak pedestals used in lounges.
- 22 When enquiries were made to coloured metal manufacturers as to why they have largely stayed out of this market, the response was that the 'work is too hard, and the profits too low'.
- 23 Thanks to this diversification, he had expanded his employees to 6 (some semi-skilled, others he had trained himself), and his profit levels were comparable to those of the Coloured metal manufacturers - in excess of R3000 per month.
- 24 Again, South Africa differs from other developing countries in this respect. Unlike South Africa, the domestic manufacturing capability in these countries is often very small, forcing them to rely on imports. However, foreign exchange constraints forces local producers to become innovative in responding to the shortages, and it is often small entrepreneurs who have the flexibility to do this. A celebrated example of this in Kenya was a small metal manufacturer who responded to the unavailability of car parts and began manufacturing wheel rims, copying the designs of the imports.
- 25 Yet another issue raised by the issue of subcontracting is that of the dependence of the small subcontractors on the large firms. A recent study into 54 enterprises in JHB (Simon and Birch, 1992) found that, of the 19 enterprises which were regularly subcontracted, most reported that the subcontracting relationship proved highly beneficial to their businesses. Our interviews with enterprises engaged in subcontracting confirmed this.
- 26 The experience of small producers in developing countries appears to be quite different, however, as they are often extremely efficient in supplying mass markets (Kenya research visit). This is probably related to the nature of markets in developing countries, where import substitution policies have restricted access to imports, creating shortages which existing producers have been unable to meet. It is to such market imperfections which many small producers have responded, providing the basis for their considerable successes.

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